

Neomar
Resources Limited
Annual Report
1979

79
Neomar

BOARD OF DIRECTORS

Stanley J. Chad, Calgary, Alberta
Petroleum Engineer, President, Signalta Resources Limited

H. Dahl-Jensen, Unionville, Ontario
Realtor

David Doig, Toronto, Ontario
Chartered Accountant, Executive Vice President, Camflo Mines Limited

Robert E. Fasken, Mississauga, Ontario
Mining Executive, Chairman, Camflo Mines Limited

K. G. R. Gwynne-Timothy, Q.C., Toronto, Ontario
Barrister and Solicitor, Senior Partner, Holden, Murdoch & Finlay

Donald A. Engle, Calgary, Alberta
President, Neomar Resources Limited

Robert M. Smith, Oakville, Ontario
Mining Engineer, President, Camflo Mines Limited

OFFICERS AND STAFF (as at March 31, 1980)

Donald A. Engle — *President*

Robert E. Fasken — *Vice President*

Robert M. Smith — *Vice President*

David Doig — *Vice President*

William R. Robertson — *Secretary*

Robert D. Sherman — *Treasurer*

C. Bruce Burton — *Assistant Treasurer*

Indraman Halim-Diharja — *Exploration Manager*

Douglas Minken — *Geologist*

Howard M. Sorensen — *Production Manager*

EXECUTIVE OFFICE

Suite 877, Gulf Canada Square
401 — 9th Avenue S.W.
Calgary, Alberta T2P 3C5

HEAD OFFICE

Suite 3001, South Tower, P.O. Box 45
Royal Bank Plaza
Toronto, Ontario M5J 2J1

TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company
Toronto, Ontario

AUDITORS

Thorne Riddell
Toronto, Ontario

SOLICITORS

Holden, Murdoch & Finlay
Toronto, Ontario

BANKERS

Canadian Imperial Bank of Commerce
Toronto, Ontario

SHARE LISTING

The Toronto Stock Exchange
Symbol NMR

ANNUAL MEETING OF SHAREHOLDERS

May 15, 1980, 10:00 a.m.
York Room, Royal York Hotel
Toronto, Ontario

Directors' Report to the Shareholders

Increased oil and gas activities and exploration on long-held gold interests highlighted 1979.

Since the end of the fiscal year:

oil and gas activities have been expanded with Executive Offices established in Calgary, Alberta;

exploration and development on the Wilmar gold property has been expanded with a view to establishing the economic feasibility of resuming production.

Conditions for both oil and gas activities and gold mining are excellent. Neomar will be able to broaden its interests and to become more aggressive in seeking opportunities as a result of financing arrangements with Camflo Mines Limited.

FINANCIAL

Revenue from natural gas production more than doubled during the year, mainly as a result of higher production at the West Viking field and initial revenue from wells drilled under the Signalta Joint Venture.

Gross revenue of \$274,292 compares with \$118,750 in 1978. Net income at \$60,240 or 3¢ per share, is up from \$5,202 in 1978.

Camflo agreed to spend approximately \$1 million for oil and gas exploration over a 12 month period, commencing September 1979, on Neomar's oil and gas properties and interests in return for 500,000 treasury shares of Neomar. Camflo also committed to spend \$1 million over the following 12 month period for 400,000 treasury shares of Neomar and has options to spend \$1 million a year in 1982 and 1983 for an additional 619,047 treasury shares.

To March 31, 1980, Camflo has received 150,000 treasury shares of Neomar in exchange for \$300,000 spent under the above program.

The arrangement with Camflo for financing the gold exploration program on the property of

Wilmar Mines Limited in the Red Lake area of north-western Ontario is summarized as follows:

Camflo will provide \$350,000 for Neomar's share of expenditures before the end of 1980 and has the option to provide an additional \$875,000 by the end of 1981. Camflo will receive 114,754 Neomar shares if it only provides the initial \$350,000 or 320,636 shares after the end of 1981 if a total of \$1,225,000 is provided.

Under the provisions of the Income Tax Act of Canada, Camflo will receive the applicable tax write-offs on its expenditures both on oil and gas and gold interests, whereas Neomar will retain its existing interests in its oil and gas properties and in Wilmar Mines Limited. Neomar is not expected to be in a tax paying position for several years.

In summary, should Camflo proceed with all phases of the oil and gas and gold exploration financings as detailed above it will increase its ownership of Neomar from its present 31% to 62.5% at the end of 1983.

OIL AND GAS ACTIVITIES

During 1979, approximately \$1,350,000 was spent on exploration and development of Neomar's interests in east-central Alberta, British Columbia and west-Texas.

Independent engineering reports indicate that at year end proven reserves were 5.7 million cubic feet of natural gas and 1201 barrels of oil.

At year end the Company had interests ranging from 5% to 15% in 139,000 gross acres in Alberta and British Columbia.

Approximately \$4 million is budgeted to be spent in 1980 — \$2 million in the West Viking area and the Signalta Joint Venture in Alberta and an additional \$2 million for new exploration

projects in western Canada — and possibly the United States.

West Viking Gas Field — East Central Alberta

During 1979 the Company participated in 14 wells with 8 being completed as gas wells. At the end of 1979 the Company had working interests ranging from 6% to 15% in a total of 36 completed wells in this gas contract area. Of the 6 wells drilled in the first quarter of 1980, 5 have been completed as gas wells. It is anticipated that 25 wells will be drilled at West Viking in 1980.

Signalta Joint Venture — East Central Alberta and British Columbia

During 1979, the Company participated in drilling 74 wells and 43 were completed as gas wells. During the first quarter of 1980, 15 wells have been drilled and 10 have been completed as gas wells. Approximately 100 wells will be drilled in 1980 with a total budget of \$17 million. Your company has a 10% participation in this program which is concentrated in a gas contract area.

Other projects

In the joint venture with Renaissance Resources Limited, four development wells were drilled in 1979. Neomar now has interests in 23 gas wells and one potential oil well developed by this program. Two wells are now in production and the remaining wells are expected to be brought into production over the next few years.

Through a wholly-owned U.S. subsidiary, Neomar Resources Inc., a 10% participation is held in a wildcat drilling program in the Palo Duro Basin area of west Texas operated by American Petrofina. Two dry holes were drilled in 1979. Neomar's option to drill additional wells under this program is currently being reassessed.

GOLD INTERESTS — Red Lake area of Northwestern Ontario.

Wilmar Mines Limited

Your Company has an approximate 35% interest in Wilmar Mines Limited. The old mine workings are to be pumped out and further underground exploration and development and surface work is planned. A surface diamond drilling program is now underway and initial results have been encouraging. Work on the Wilmar property will be financed under the arrangement with Camflo.

Assuming gold market conditions continue to be favourable and the current exploration and development program is successful, several paths to production could be considered. Production could be resumed through the adjoining Wilanour property using its milling plant which has a capacity of 400 tons per day. (The Wilanour and Wilmar properties are connected by underground mine workings and the Wilmar ore was processed in the Wilanour mill in the late Sixties and early Seventies.) Another alternative could be to sink a shaft on the Wilmar property and erect a new milling plant on the site. These and other possibilities will be examined in detail as the exploration and rehabilitation program progresses.

Camflo has a 26% interest in Wilanour Resources Limited — the former Cochenour Willans Gold Mines Limited, and is funding the exploration, development and rehabilitation of its property and mill under a financing arrangement similar to the one entered into with Neomar.

Neomar has an approximate 45% interest in Annco Mines Limited which owns the adjoining property to the west of the Wilmar property. Neomar also owns a claim group in Dome Township in the Red Lake Area. A modest exploration program will be carried out by Neomar and Wilanour on the Annco property and by Neomar on the claim group in Dome Township.

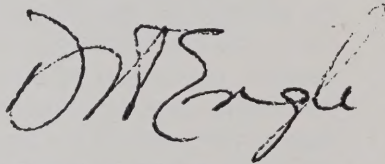
Outlook

With cash flow from natural gas production expected to increase rapidly in 1980 and with the financial support being provided by Camflo, your Company is in an excellent position to become more aggressive in pursuit of growth opportunities in the oil and gas industry.

In a time of difficult economic conditions, gold has a special and growing role in the world's financial system. Prices have reached a level which have again made the Company's gold holdings very attractive.

I am very pleased to be associated with Neomar and look forward enthusiastically towards development of your Company's present and future potential.

On Behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read "D A Engle". The signature is fluid and cursive, with the first name "Donald" and last name "Engle" clearly distinguishable.

Donald A. Engle,
President and Chief
Executive Officer

March 31, 1980

Neomar

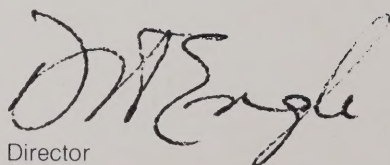
Consolidated Financial Statements
for the year ended
December 31, 1979

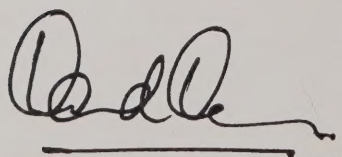
Consolidated Balance Sheet

as at December 31, 1979

Assets	1979	1978
CURRENT ASSETS		
Cash and short-term deposits		\$ 356,859
Receivable from Camflo Mines Limited	\$ 363,240	
Accounts receivable	15,330	6,421
Marketable securities, at cost (quoted market value \$630,175; \$535,225 in 1978)	234,275	234,275
Prepaid expenses and deposits	12,335	3,360
	625,180	600,915
INVESTMENT IN AND ADVANCES TO OTHER COMPANIES (note 2)	28,873	3,433
OTHER ASSETS		
Petroleum and natural gas interests (note 3)	1,613,035	797,946
Mining claims (note 4)	262,791	255,819
	1,875,826	1,053,765
	<u>\$2,529,879</u>	<u>\$1,658,113</u>

Approved by the Board


Director


Director

Neomar Resources Limited
(Incorporated under the laws of Ontario)

Liabilities	1979	1978
CURRENT LIABILITIES		
Bank advances, (note 5)	\$ 87,566	
Accounts payable and accrued liabilities	72,142	\$ 48,182
Current portion of long-term debt	112,000	
	<u>271,708</u>	<u>48,182</u>
LONG-TERM DEBT (note 5)	<u>588,000</u>	
 Shareholders' Equity		
CAPITAL STOCK (notes 3 and 6)		
Authorized		
5,000,000 shares of no par value (1978, 3,837,994 shares)		
Issued		
1,837,938 shares	2,951,422	2,951,422
DEFICIT	1,281,251	1,341,491
	<u>1,670,171</u>	<u>1,609,931</u>
	 <u>\$2,529,879</u>	 <u>\$1,658,113</u>
Subsequent event (note 9)		

Consolidated Statement of Income and Deficit

Year Ended December 31, 1979

	1979	1978
Share of revenue from petroleum and natural gas interests	\$ 274,292	\$ 118,750
Less: Operating expenses	38,832	16,342
Depreciation and depletion of petroleum and natural gas interests	72,500	25,400
	111,332	41,742
Income from petroleum and natural gas properties	162,960	77,008
Administrative expenses	92,119	71,767
Interest (including interest of \$19,100 on long term debt)	36,152	17,255
	128,271	89,022
Other income	25,551	17,216
	102,720	71,806
NET INCOME FOR THE YEAR (note 7)	60,240	5,202
DEFICIT AT BEGINNING OF YEAR	1,341,491	1,346,693
DEFICIT AT END OF YEAR	\$1,281,251	\$1,341,491
EARNINGS PER SHARE	\$0.03	\$ —

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1979

	1979	1978
WORKING CAPITAL DERIVED FROM		
Operations	\$ 132,740	\$ 30,602
Issue of common shares		906,902
Proceeds from bank loan	700,000	
	<u>832,740</u>	<u>937,504</u>
WORKING CAPITAL APPLIED TO		
Petroleum and natural gas interests	887,589	420,828
Deferred exploration expenditures	6,972	139
Advances to other companies	25,440	3,428
Decrease in long-term debt	112,000	96,000
	<u>1,032,001</u>	<u>520,395</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(199,261)	417,109
WORKING CAPITAL AT BEGINNING OF YEAR	552,733	135,624
WORKING CAPITAL AT END OF YEAR	<u>\$ 353,472</u>	<u>\$ 552,733</u>

Auditors' Report

To the Shareholders of
Neomar Resources Limited

We have examined the consolidated balance sheet of Neomar Resources Limited as at December 31, 1979 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The 1978 comparative figures are based on financial statements reported upon by other auditors.

Toronto, Canada
March 13, 1980

THORNE RIDDELL
Chartered Accountants

Notes to Consolidated Financial Statements

Year Ended December 31, 1979

1. Summary of Significant Accounting Policies

(a) Basis of consolidation

These financial statements include the accounts of the company and its wholly-owned subsidiary Neomar Resources Inc. All material intercompany transactions have been eliminated.

(b) Depreciation, depletion and amortization

The company follows the full cost method of accounting whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expense, carrying charges on non-producing property, costs of drilling both productive and unproductive wells and related production equipment. Proceeds received on disposal of properties are credited against such costs. Depreciation and depletion are provided on the net costs using the composite unit of production method based on total estimated proven reserves.

(c) Deferred exploration expenditures

Expenditures on mineral exploration programmes are deferred on a specific project basis until the viability of the project is determined. If a project is abandoned, the accumulated project costs are charged to income. If a project is developed, the related accumulated costs are amortized against future income from that project.

(d) Basis of translation of U.S. currency

Translation of U.S. currency has been made as follows:

- (i) Current assets and liabilities, at exchange rates prevailing at the year end.
- (ii) All other assets and liabilities at exchange rates prevailing at the date the assets were acquired or the liabilities incurred.
- (iii) Income and expenses at the average rate for the year except for depreciation, depletion and amortization which is based on the cost of assets as translated.

2. Investment in and Advances to Other Companies

	1979	1978
Ancco Mines Limited (45% owned)		
Shares	\$ 1	\$ 1
Advances	4,568	
	<u>4,569</u>	<u>1</u>
Wilmar Mines Limited (35% owned)		
Shares	1	1
Advances	24,300	3,428
	<u>24,301</u>	<u>3,429</u>
Other Companies		
Shares	3	3
	<u>\$ 28,873</u>	<u>\$ 3,433</u>

In prior years, investments in other companies were written down to a nominal value and a decision was made to wind up these companies.

Because of the renewed interest in gold, the decision to wind up Ancco Mines Limited and Wilmar Mines Limited was rescinded. These companies have contiguous properties in the Red Lake Area of Northwestern Ontario and a program was commenced to establish the feasibility of reactivating the previous workings and to further delineate the orebody (see note 9).

3. Petroleum and Natural Gas Interests

	1979	1978
Petroleum and natural gas properties together with exploration and development thereon		
Canada	\$ 1,090,607	\$ 581,845
U.S.A.	192,618	31,997
	<u>1,283,225</u>	<u>613,842</u>
Production equipment	319,708	143,496
	<u>1,602,933</u>	<u>757,338</u>
Accumulated depreciation and depletion	147,623	75,123
	<u>1,455,310</u>	<u>682,215</u>
Exploration advances	157,725	115,731
	<u>\$ 1,613,035</u>	<u>\$ 797,946</u>

Agreement with Camflo Mines Limited

On August 13, 1979 the company entered into an agreement with Camflo Mines Limited (Camflo) whereby Camflo will expend \$2,000,000 (with the right but not the obligation to expend up to an additional \$2,000,000 for the same purposes) on exploration and development of petroleum and natural gas properties in Alberta and British Columbia in which Neomar now has or will acquire an interest. Camflo will receive as consideration unissued shares of the company (set out below). Camflo will acquire no interest in any of the properties but under the Income Tax Act may write off the consideration for the acquisition of such shares. Neomar will be deemed not to have incurred any eligible tax deductible expenses.

The agreement provides for expenditures by Camflo and issuance of shares therefor by Neomar as follows:

	Amount	Number of shares to be issued to Camflo
Obligation of Camflo to expend:		
Within first twelve month period	\$1,000,000	500,000
Within second twelve month period	\$1,000,000	400,000
Right of Camflo but no obligation, to expend:		
Within third twelve month period	\$1,000,000	333,333
Within fourth twelve month period	\$1,000,000	285,714

As of December 31, 1979 approximately \$463,000 had been expended but no shares issued under terms of the agreement.

4. Mining Claims

	1979	1978
Mining claims, Township of Dome, District of Patricia, Ontario	\$ 99,470	\$ 99,470
Deferred expenditures	163,321	156,349
	<u>\$ 262,791</u>	<u>\$ 255,819</u>

Recovery of cost of mining claims and deferred expenditures is dependent upon obtaining adequate financing and developing a commercially feasible mining operation.

5. Long-Term Debt

Bank loan	\$ 700,000
Less current portion	112,000
Long-term	<u>\$ 588,000</u>

The bank loan and advances are secured by marketable securities and an assignment of accounts receivable.

The bank loan is also secured by certain of the company's interests in petroleum and natural gas properties. Interest is payable at bank prime rate plus one percent.

Repayments are as follows: 1980, \$112,000; 1981, \$174,000; 1982, \$174,000; 1983, \$174,000; 1984, \$66,000.

6. Capital Stock

By Articles of Amendment effective May 31, 1979 the authorized capital of the company was increased to 5,000,000 shares by the creation of an additional 1,162,006 shares.

As at December 31, 1979 options were outstanding on 50,000 shares exercisable at \$1.30 per share expiring October 19, 1980.

7. Income Taxes

The company has resource deductions available in the amount of approximately \$800,000 to offset future taxable income.

8. Statutory Information

The aggregate direct remuneration paid by the company to its directors and senior officers (as defined by The Business Corporations Act) amounted to \$13,984 (\$3,125 in 1978).

9. Subsequent Event

On January 18, 1980 Camflo Mines Limited (an associated company) formed a partnership with Wilmar Mines Limited (see note 2) to carry out exploration, development and rehabilitation of the Wilmar property. Wilmar has contributed the Wilmar property to the partnership and Camflo has agreed to commit to expend \$1,000,000 on the Wilmar Property in 1980. If Camflo elects by December 31, 1980 to do no further work on the Wilmar Property, Camflo has to exchange 35% of its interest in the partnership for 114,754 unissued shares of Neomar. However, if Camflo elects to commit an additional \$2,500,000 on further exploration, development and rehabilitation work on the Wilmar Property by the end of 1981 Camflo has to exchange 35% of its interest in the partnership for 320,636 unissued shares of Neomar.

10. Comparative Figures

Certain comparative figures for 1978 have been reclassified to conform with the presentation adopted for 1979.

NEOMAR RESOURCES LIMITED

NEOMAR RESOURCES LIMITED

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CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
For the six months ended June 30, 1979
 (Unaudited)

	1979	1978
Revenue from gas operations	\$ 122,589	\$ 67,584
Less: Operating expenses	12,533	7,188
Amortization of interests in petroleum and natural gas properties	29,618	16,896
	42,151	24,084
Income from gas operations ..	80,438	43,500

Administrative Expenses

Directors' fees and expenses	5,000	2,351
General expense	7,650	5,169
Interest on bank loan	2,449	11,802
Office expense	4,687	2,424
Office rent	1,717	1,600
Legal, audit and consultants' fees	11,719	3,883
Shareholders' information	7,204	3,303
Transfer agent's fees and expenses	2,789	4,509
	43,215	35,041
	37,223	8,459

Other Income

Interest	12,190	—
Net income for the period	49,413	8,459
Deficit, beginning of period ..	1,341,491	1,346,693
Deficit, end of period	\$1,292,078	\$1,338,234

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the six months ended June 30, 1979
 (Unaudited)

	1979	1978
Working Capital Derived from		
Operations	\$ 49,413	\$ 8,459
Charges not requiring an outlay of funds:		
Amortization of interests in petroleum and natural gas properties	29,617	16,896
Prepayment under gas contract	14,962	—
	93,992	25,355
Working Capital Applied to		
Interest in petroleum and natural gas properties ..	565,770	153,967
Decrease in long-term debt	—	19,800
	565,770	173,767
Decrease in working capital	471,778	148,412
Working capital, beginning of period	556,161	135,624
Working capital (deficiency) end of period	\$ 84,383	\$ (12,788)

Neomar
 NEOMAR RESOURCES LIMITED

**INTERIM REPORT
 TO SHAREHOLDERS**

For the Six Months ended June 30, 1979

NEOMAR RESOURCES LIMITED

Suite 3001, South Tower
Box 45, Royal Bank Plaza
Toronto, Ontario
M5J 2J1

To the Shareholders:

Please find attached the Consolidated Statements of Income and Deficit and Changes in Financial Position for the six months ended June 30, 1979 together with comparative figures for the same period last year.

FINANCIAL

Revenue from natural gas production at \$122,589 is almost double the \$67,584 received in the first half of 1978 and already exceeds the \$118,750 of revenues for the full 12 months of 1978. The increase in revenue is mainly due to production from additional wells which have been tied-in at West Viking in East-Central Alberta.

Net Income increased to \$49,413 equal to 2.7 cents a share from \$8,459 or 0.5 cents a share and cash flow from operations increased to \$79,030 equal to 4.3 cents a share from \$25,355 or 1.4 cents a share in the first half of 1978.

PETROLEUM AND NATURAL GAS

Neomar's activities in the oil and gas industry are being expanded. The Company is participating in projects which will involve financial commitments of about \$1.5 to \$2.0 million over the next year, which should lead to significant growth in assets and cash flow.

To assist in developing these projects, your Company has entered into an agreement with Camflo Mines Limited, an associated company which financed the revived activity in Neomar last year.

Under this agreement, Camflo undertakes to spend \$2 million over the next two years on exploration and development of Neomar's oil and gas properties and interests. Camflo will receive Neomar shares on the following basis: at \$2 a share for the first \$1 million of expenditures, to be completed within 12 months; at \$2.50 a share for the second \$1 million to be spent in the second 12 months.

On completion of these expenditures, Camflo will have the right to spend up to \$2 million over a

further 2 year period on exploration and development of Neomar's oil and gas properties, receiving Neomar shares on the basis of \$3.00 a share in the third year and \$3.50 a share in the final year, provided it has spent \$1 million in the previous year.

Assuming that no additional shares of Neomar are issued, Camflo would increase its interest in Neomar, from its present 25%, to 59% over a 4 year period if it spends a total of \$4 million on exploration and development of Neomar's oil and gas properties.

Neomar is responsible for developing the programs and will own all rights and receive all income which will be generated from successful wells.

Neomar does not now pay income taxes and is not expected to be in a tax paying position for some time as a result of accumulated unused tax deductions and deductions which will accrue from future expenditures by the Company. Under the Income Tax Act of Canada, Camflo will be entitled to deduct the amounts expended for the acquisition of shares as a Canadian exploration or development expense.

The agreement with Camflo will result in your Company being able to seek and undertake other projects.

The following is a summary of current projects:

OIL & GAS

Signalta Exploration Joint Venture — East Central Alberta and British Columbia

Neomar has a 10% participation in a \$10 million program for 1979. So far 23 wells have been drilled, and 12 have been cased as potential gas producers, most of which should be in production by year-end.

West Viking Gas Field — East Central Alberta

An expanded drilling program at West Viking started recently and is expected to be carried out at a rate of three wells a month through the balance of 1979 and into 1980.

Renaissance Joint Venture — Alberta and British Columbia

As a follow-up to the 1978 program, 4 successful gas wells have been completed. One well drilled last year in the Willingdon area of East-Central Alberta started production in February and another 9 wells should be producing by year-end.

Palo Duro Project — West Texas

A second wildcat well is planned by American Petrofina, following recent reassessment of seismic data. Drilling is expected to start this Fall.

GOLD

Red Lake Area

Geophysical surveys and geological mapping are underway on the Wilmar ground. This is the first phase of an active program of exploration. Neomar has share interests in Wilmar Mines Ltd., and Ancco Mines Ltd., which are included in this re-evaluation program together with the Company's group of claims in Dome Township. Most of the current activity is concentrated on the Wilmar property.

On behalf of the Board of Directors,

R. M. SMITH,
President

August 14, 1979.